Buckman Direct Diversion Project

A joint regional project of the City of Santa Fe and Santa Fe County to build a reliable and sustainable water supply.

MEMORANDUM

Date: October 2, 2012

To: Buckman Direct Diversion Board

From: Brian Shelton, Business Administrator and Fiscal Manager BS

Subject: FY11/12 BDD Operating Fund Budget to Actual Comparison

---

BASES

1. The Project Management and Fiscal Services Agreement (PMFSA) Article 7, paragraph A, section 6 states:

> "Within 90 days after the end of each fiscal year, provide copies of financial statements to the City, the County, and Las Campanas, showing the assets, liabilities, revenues, expenses, equity balances and budget comparisons for the project fund on an annual basis for the prior fiscal year in accordance with GAAP and GASB, complete the Management's Discussion and Analysis for the annual financial report, and provide upon request, a monthly general ledger report but may recommend that its auditors produce the financial statements, dependent upon staff available and the complexity of the reporting requirements."

To meet part of this requirement, page 6 of this memo only reports the unaudited estimates of revenues, expenditures, and budget comparisons for the project funds. These are best estimates because actual expenditures may not incorporate all year-end and prior period adjustments.

2. Additionally, the PMFSA Article 6, paragraph I states:

> "As soon as practicable after the end of each Fiscal Year, the Project Manager shall calculate the actual costs experienced by the Project in the previous Fiscal Year...and make appropriate recommendations to the BDD Board for adjustments needed in the current fiscal year budget."

PURPOSE

Staff seeks the Board's direction for the purpose of amending the Board adopted Working Capital and Billing Policy (Attached) to prudently manage the estimated excess revenues of

approximately $3 million accumulated during fiscal year FY11/12 ended June 30, 2012. The Board adopted Working Capital and Billing Policy (Attached) contains a section named "Final Billing & Reconciliation" which states:

> "Any credit may be carried forward and applied to subsequent month's pre-billing or reconciliation billing payment"

The policy does not provide direction to staff as to how to manage the year end excess revenue, and it does not seem to provide enough guidance on the use of credits. A credit, or excess revenue, is created when the actual expenditures are less than the monthly pre-bill based on budgeted expenditures.

YEAR ENDED JUNE 30, 2012 HIGHLIGHTS (for statement see p. 6 of this memo)

Operating Fund

Operating Fund revenues were in excess of fund expenditures by approximately $3.02 million primarily because actual expenditures were an estimated $5,753,101.50, or 65%, of budgeted expenditures. Las Campanas requested use of a credit of $87,825 which resulted in collection of 99% of budgeted revenues. The credit was due to pre-bill payments for Las Campanas' share of monthly operating budgets in excess of its actual costs, and the credit was requested for the months of February – May 2012.

Expenditures exceeded revised budget for the Insurance and Registration line item by $3,967.67. This was due to additional expenditures for insurance premiums on 4 insurance policies with Traveler's Insurance during the month of February 2012 amounting to $9,653. The basic general liability assessment of $172,380.17 was paid in August 2011.

Repair and Replacement Fund

Repair and Replacement Fund revenues were $167,213.41. Las Campanas requested use of a credit of $4,379.59 that resulted in collection of 97% of budgeted revenues. The credit was due to pre-bill payments for Las Campanas' share of monthly operating budgets in excess of its share of actual operating costs, and the credit was requested for the months of February – April 2012.

Emergency Reserve Fund

Emergency Reserve Fund revenues were $372,710. Las Campanas requested use of a credit of $43,952 that resulted in collection of 89% of budgeted revenues. The credit was due to pre-bill payments for Las Campanas' share of monthly operating budgets in excess of its actual costs, and the credit was requested for the months of February – May 2012.

Budget to Actual Comparison

Page 6 of this memo presents a budget to actual schedule of unaudited estimates of results for FY11/12 year ended June 30, 2012 on an accrual basis. These are best estimates because actual expenditures may not yet incorporate all year-end and prior period adjustments.

ANALYSIS

Staff believes that the utility enterprise funds of both the City of Santa Fe and the Santa Fe County typically strive to maintain 90 days of cash-on-hand to cover unforeseen gaps in the timing and amount of cash collections during the course of a given fiscal year.

A prudent opportunity exists for the Board to formally establish a similar 90 day target balance of cash-on-hand for the BDD Operating Fund for the purpose of mitigating unforeseen gaps in the amount or timing of cash collections during a given fiscal year.

Given the relatively high fixed costs of BDD operations, a straightforward way to calculate 90 day cash-on-hand target could be to calculate average daily budgeted expenditures for the current fiscal year, then multiply the result by 90. Using the Adopted FY12/13 Operating Expenditure Budget with such a method, the target balance would be $2,087,100:

Example 1

FY12/13 Adopted Budget Expenditures	$	8,464,512.20
Divided # Days in Year		365
Average Daily Budget	$	23,190.00
Multiplied by 90 Days		90
90 Days Cash on Hand Target	$	2,087,100.00

In the above example, the current year Board Adopted FY12/13 operating expenditure budget is $8,464,512.20, so the average daily expenditure budget is $23,190. Using this daily figure, the 90-day cash-on-hand target of $2,087,100 could be established for the current FY12/13 fiscal year. The target balance of example 1 can be applied to the excess FY11/12 revenue of approximately $3 million as follows in example 2.

Example 2
(Est. = estimated)

Est. Year End (FY11/12) Excess Revenue	$	3,027,475.00
less 90 Days Cash on Hand Target	$	(2,087,100.00)
Remainder = Est. Credit to Partners	$	940,375.00

In this last example, the estimated $940K credit due to partners would be for City's and the County's use since Las Campanas already requested use of their credits for FY11/12.

There would be three (3) key benefits to the partners with the Board's approval to establish a cash-on-hand target and appropriate methodology:

1. Limit the amount of accumulated excess revenue.
2. Provide a prudent safeguard against unforeseen shortfalls in the timing and amount of cash collections.
3. Ensure consistent reporting and accounting of excess revenues.

It seems prudent to require that the partners apply their credits for the operating budget specifically to the pre-bills for the operating fund only, since the application of operating credits towards pre-bills for the Emergency Reserve Fund and the Repair and Replacement Fund seems counterproductive to the intent and purpose of establishing these two non-operating funds and their respective target balances of $2,000,000 and $823,624.

RECOMMENDATIONS

Amend the Board adopted Working Capital and Billing Policy "Final Billing & Reconciliation" section as follows:

1. Incorporate the key aspects of the following three enhancements (a, b, and c) to work together.

    a. **Specify that the operating fund should maintain a target balance of unrestricted cash-on-hand** for the purposes of
        i. Limiting the amount of accumulated excess revenue that the fund should maintain.
        ii. Providing a prudent measure of safeguard to unforeseen shortfalls in percentage or timing of cash collections.

    b. **Specify a calculation methodology** for determining an operating fund target balance of unrestricted cash on hand.
        i. It is recommended that this be based on 90 days to be consistent with utility enterprise fund policies of both the City of Santa Fe and Santa Fe County.
        ii. It is recommended that this methodology be straightforward. For this reason, it is recommended that the target balance be based on the average daily budgeted expenditures for the current year's adopted operating expenditure budget so that each partner's portion of the target balance can be determined.

    c. **Require immediate use of operating credits as soon as practical in each new fiscal year.** Unapplied excess revenue from a prior fiscal year *above and beyond the cash-on-hand target* (See example 2) is immediately used as a credit towards the respective partner's monthly operating budget pre-bills in the new fiscal year. Not doing so allows potentially large amounts of excess revenues and the unnecessary accumulation of unrestricted cash.

2. **Require that all operating fund credits be applied to pre-bills of the operating fund only** and not be applied to pre-bills for either the Emergency Reserve Fund or Repair and Replacement Fund.

Your guidance on these recommendations is time sensitive because it could assist staff with the current year's monthly invoicing, and it will be of great use in the development of the proposed FY13/14 budget which staff plans to present to you for your consideration in December 2012. An amended version of the Board adopted Working Capital and Billing Policy can be brought back to you in November for formal adoption.

Thank you.

BUCKMAN DIRECT DIVERSION REGIONAL WATER PLANT

***UNAUDITED RESULTS FY2011/12 ENDED JUNE 30, 2012 - ACCRUAL BASIS**

	FY2011/12 Adopted Budget	FY2011/12 Revised Budget	FY2011/12 Unaudited Estimate Actual Year Ended 6/30/12	FY2011/12 Revised to Actual $VAR (Over) or Under Budget	FY2012/13 Adopted Budget
Revenues by Fund:					
BDD Operating	$ (8,868,402.00)	$ (8,868,402.00)	$ (8,780,577.00)	$ 87,825.00	$ (8,464,512.20)
BDD Repair and Replacement	(411,812.00)	(171,593.00)	(167,213.41)	4,379.59	(411,812.00)
BDD Emergency Reserve Fund	(1,000,000.00)	(416,662.00)	(372,710.00)	43,952.00	(1,000,000.00)
Total Revenues by Fund	(10,280,214.00)	(9,456,657.00)	(9,320,500.41)	136,156.59	(9,876,324.20)
Expenditures by Program:					
Administrative Services	$ 1,478,450.08	$ 1,444,838.66	$ 824,333.11	$ 620,505.55	$ 1,471,513.39
Environment, Health, Safety, Transportation and Security (EHSTS)	298,915.30	298,915.30	239,667.96	59,247.34	342,015.30
Maintenance	1,224,922.53	1,401,273.30	819,724.95	581,548.35	1,369,564.25
Operations	5,207,317.34	5,063,698.69	3,434,502.26	1,629,196.43	4,630,971.23
Regulatory Compliance	658,796.75	659,676.05	434,873.22	224,802.83	650,448.04
Emergency Reserve Fund & Repair Fund	-	-	-	-	-
Total Expenditures by Program	8,868,402.00	8,868,402.00	5,753,101.50	3,115,300.50	8,464,512.20
Excess Revenue by Fund:					
BDD Operating	$ -	$ -	$ (3,027,475.50)	$ (3,027,475.50)	$ -
BDD Repair and Replacement	(411,812.00)	(171,593.00)	(167,213.41)	4,379.59	(411,812.00)
BDD Emergency Reserve Fund	(1,000,000.00)	(416,662.00)	(372,710.00)	43,952.00	(1,000,000.00)
Total Excess Revenue	(1,411,812.00)	(588,255.00)	(3,567,398.91)	(2,979,143.91)	(1,411,812.00)
Expenditures by Type:					
Salaries and Wages	$ 1,999,941.11	$ 1,999,941.11	$ 1,981,293.64	$ 18,647.47	$ 2,042,681.42
Overtime and Shift Differential	196,285.00	196,285.00	161,326.17	34,958.83	198,817.16
Benefits	1,319,326.39	1,319,326.39	875,460.33	443,866.06	1,360,593.56
Contractual Services	1,093,033.52	1,093,033.52	552,598.43	540,435.09	1,043,920.06
Utilities	2,064,681.00	1,795,204.00	1,074,461.62	720,742.38	1,443,961.00
Communications and Software	48,920.00	66,662.93	47,766.24	18,896.69	56,420.00
Landfill Tipping Fees & Solid Waste	567,830.00	511,507.57	64,295.52	447,212.05	615,462.00
Chemicals	625,933.98	459,541.61	373,396.32	86,145.29	478,245.00
Materials and Supplies	547,950.00	995,046.53	372,289.73	622,756.80	651,619.00
Software	-	-	-	-	-
Books/Subscriptions/Periodicals	-	-	-	-	-
Gasoline and Fuel	28,840.00	32,405.52	17,663.04	14,742.48	22,000.00
Insurance and Registration	208,680.00	178,680.00	182,647.67	(3,967.67)	211,830.00
Registration	-	-	-	-	-
Employee Training and Tuition	17,900.00	17,900.00	8,869.10	9,030.90	17,500.00
Advertising and Rental	1,288.00	46,683.69	11,845.17	34,838.52	16,500.00
Interfund charges and Transfers	-	-	-	-	-
Capital Outlay/Inventory Exempt	-	63,420.13	29,188.52	34,231.61	102,000.00
Fiscal Charges	147,793.00	92,764.00	-	92,764.00	202,963.00
Transfers to Other Funds				-	
Total Expenditures by Type	8,868,402.00	8,868,402.00	5,753,101.50	3,115,300.50	8,464,512.20
Monthly "Burn Rate" (Avg. Exp/Month)	$ 739,033.00	739,033.00	479,425.00	259,608.00	705,376.00

Appendix B – Proposed Working Capital and Billing Policy

Pre-Bill Procedure

No later than the 25th day of the preceding month each owner of the project will receive a pre-billing for the subsequent month based on their share of the facility's budgeted amounts. This amount will be due and payable on the 1st day of the operating month. For example, for September operations each partner will receive a pre-bill no later than August 25th and must deposit those funds with the fiscal agent by September 1st.

Disbursements of Cash

During the course of the operating month the fiscal agent will distribute these funds to meet payroll and benefits obligations as scheduled based on the employee calendar and to pay vendors as services are rendered. For example, every two weeks the BDD must meet a payroll for services rendered in the preceding two weeks. The payment of those amounts shall be drawn from cash received through the monthly pre-billing. Other vendors will typically submit invoices after they have rendered services and with terms that require payment 30 days after invoice receipt. Those invoices shall be paid when they are presented.

Final Billing & Reconciliation

Ten days after determining the actual cost of water delivery for the month each owner will receive a reconciling bill that will detail the owner's share of actual facility expenses in the operating month. The reconciliation bill will show initial cash paid with the pre-bill invoice, the owner's share of actual monthly costs with the difference resulting in a net amount due to the owner or payable to the BDD. Any amounts due to the BDD under a reconciling billing are immediately due and payable and must be received by the fiscal agent within three business days. Any credit may be carried forward and applied to a subsequent month's pre-billing or reconciliation billing payment. Under no instance shall interest be paid, accrued or applied on owner credit balances.

All transactions will be accounted for on a cash basis of accounting except as adjusted at year –end for reporting on a modified accrual basis of accounting.

Any payment that is not received on or before the due date shall incur a late charge equal to 1% of the balance per month. Amounts shall compound on a monthly basis and accrue additional late charges until paid in full. Late charges shall not be pro-rated in less than monthly increments.

If the Facility carries excess cash and earns interest on those balances such interest income will remain within the BDD for the purposes of funding existing operating or capital needs.

Budget adjustment requests (BARs) will be approved by the Board and forwarded to the Owners as soon as reasonable for appropriation.